

# HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: OCTOBER 25, 2023

**REGARDING: RESOLUTION APPROVING AND AUTHORIZING THE SALE AND CONVEYANCE OF 652 SHERBURNE AVENUE; RECOMMENDING ISSUANCE OF A COMMUNITY DEVELOPMENT BLOCK GRANT LOAN IN THE AMOUNT OF \$949,500; AUTHORIZING TAX INCREMENT FINANCING SPENDING PLAN AUTHORITY AND APPROVING ISSUANCE OF A TAX INCREMENT FINANCING LOAN FROM UNOBLIGATED INCREMENT IN THE AMOUNT OF \$386,279; APPROVING AN HRA BUDGET AMENDMENT; AND AUTHORIZATION TO ENTER INTO A DEVELOPMENT AGREEMENT, DISTRICT 7, WARD 1.**

## **Requested Board Action**

The Housing and Redevelopment Authority of the City of Saint Paul (“HRA”) Board of Commissioners is requested to approve the conveyance of 652 Sherburne Avenue and entering into a development agreement with Thomas-Dale/District 7 Planning Council, Inc. d/b/a Frogtown Neighborhood Association, Model Cities of St. Paul Inc., Rondo Community Land Trust, and Hope Community Inc. (collectively referred to as “The Sherburne Collective” or “the Developer”) HRA-owned 652 Sherburne Avenue (the “Property”), and approve a Community Development Block Grant (“CDBG”) loan in the amount of \$949,500 and a Tax Increment Financing loan of \$386,279 for the rehabilitation of the property.

## **Background**

The HRA acquired the Property in March 2018 for \$634,000. The Property includes a vacant 8-unit apartment building of approximately 16,000 sq. ft. and adjacent vacant land of approximately 8,000 sq. ft. Tenants were relocated per Uniform Relocation Act regulations.

In accordance with the HRA policy for the disposition of HRA-owned real estate, HRA staff issued a Request for Proposals (“RFP”) for the Property on September 4, 2020 with the initial review starting on December 4, 2020. HRA staff received five offers regarding the purchase and redevelopment of the Property. HRA staff recommended The Sherburne Collective for Tentative

Developer Status for the Property due to their redevelopment proposal's strong alignment with the priorities identified in the RFP Specifications.

On May 26, 2021, by Resolution PH 21-130, the HRA granted Tentative Developer Status to the Sherburne Collective for the Property. That Resolution authorized such status until March 31, 2022 and listed specific tasks to be completed by the Developer prior to that date. The Resolution also provided the HRA Executive Director authority to extend such status for 3 months, which was granted, extending the Tentative Developer Status and tasks deadlines to June 30, 2022. On October 12, 2022, by Resolution PH 22-1602, the HRA further extended Tentative Developer Status to the Sherburne Collective, identifying specific tasks and deadlines through March 31, 2023. Completion or significant progress of those tasks was achieved by that date and the Developer and staff have continued to move the project forward from that time to the proposal under consideration today.

The Developer proposes to reconfigure the building into 6 apartment units and to utilize the adjoining vacant property for parking, a garden, and green space for residents living in the building. The Developer proposes to create two four-bedroom units, three two-bedroom units, and one accessible, one-bedroom unit, for a total of six units.

The Developer proposes to lease the units to qualified occupant households for 5 years. In the sixth year, the Developer proposes to transition ownership of the property to some form of community/occupant ownership model, such as a land trust or residential cooperative, which will own and manage the Property long-term. The developer has not yet determined the details of the proposed transition to ownership, to ensure tenants transitioning to owners are able to design the model as best fits their needs.

The Developer initially proposed that all 6 units would be income-restricted to households earning no more than 50% Area Median Income ("AMI"), with a corresponding rent restriction to rents affordable at this income level. The Developer has subsequently modified its proposal and now intends to reach deeper to 30% AMI income levels and affordability for all 6 units.

The change in affordability level and the plan to transition to community ownership both impact what sources can be considered for the project. The original proposal anticipated a \$600,000 mortgage based on rents at 50% AMI. The deeper affordability allowed the project to

successfully apply for Ramsey County's 30% AMI ARPA subsidy program, which tentatively committed funding to the project in November of 2021, but that deeper affordability also eliminated the project's ability to maintain any debt service.

The original proposal also anticipated over \$700,000 in funding from Minnesota Housing and the Federal Home Loan Bank. The Developer has since determined that those sources are not feasible because of the planned conversion from rental to homeownership, but they have secured pre-development grants from Twin Cities LISC and the Metropolitan Council (in partnership with City of Saint Paul).

The Ramsey County funding more than replaced the original proposed sources, but costs for the project increased as well, and the deeper affordability further increased the gap, as well as the elimination of any developer equity and any deferred developer fee. In addition, inflation and fast rising construction costs have increased such that even with the significant Ramsey County investment, the project now has a larger financial gap than originally anticipated. To support the growing gap, on October 12, 2022 the Board approved up to \$1,000,000 in HRA available funding for the project. Staff were able to identify \$949,500 in CDBG funding, but a gap of \$386,279 remains. Staff identified unobligated pooled TIF ("Temporary TIF") as the only remaining source of City or HRA funding available to support the project.

Furthermore, in the fall of 2022 staff had the property appraised. While the original purchase price was reflective of the City investment into the property (\$485,000), the condition of the building had deteriorated substantially and the appraised value was significantly less than the original purchase price, at just \$145,000. The reduced land cost and an HRA land write-down for the \$145,000 was further proposed to reduce the project gap. The following table shows the original, October 2022, and current proposed sources and uses reflecting all these changes.

**Table 1. Evolution of Sources and Uses**

	<b>Original Proposal</b>	<b>Oct. 2022 Proposal</b>	<b>Current Proposal</b>
<b>Funding Sources</b>			
Saint Paul HRA	\$300,000	\$1,000,000	\$949,500
Saint Paul HRA: Land write-down	\$0	\$0	\$145,000
Saint Paul: TIF	\$0	\$0	\$386,279
LISC	\$5,000	\$5,000	\$5,000
MN Housing	\$681,010	\$0	\$0
FHLB	\$210,000	\$0	\$0
Mortgage	\$600,000	\$0	\$0
Sales Tax/Energy Rebates	\$7,500	\$7,500	\$7,500
Owner equity	\$40,000	\$40,000	\$0
Deferred Dev Fee	\$86,140	\$128,401	\$0
Met Council Predev Grant	\$0	\$56,500	\$56,500
Ramsey County ARPA	\$0	\$1,683,303	\$1,683,303
<b>Sources TOTAL</b>	<b>\$1,929,650</b>	<b>\$2,920,704</b>	<b>\$3,233,082</b>
	<b>Original Proposal</b>	<b>Oct. 2022 Proposal</b>	<b>Current Proposal</b>
<b>Development Costs</b>			
Land/Building	\$485,000	\$485,000	\$145,000
Rehab/Demo	\$1,021,700	\$1,778,605	\$2,301,000
Construction Contingency	\$76,628	\$108,500	\$240,000
Architect	\$65,900	\$101,325	\$101,325
Environmental	\$30,000	\$35,000	\$35,000
Legal Fees	\$20,000	\$25,000	\$25,000
Developer's Fee	\$175,422	\$219,638	\$200,000
Soft Cost Contingency	\$40,000	\$15,143	\$30,000
Title and Recording	\$10,000	\$10,000	\$10,000
City Fees	\$5,000	\$5,000	\$19,257
Replacement Reserves	\$0	\$106,500	\$106,500
<b>Uses TOTAL</b>	<b>\$1,929,650</b>	<b>\$2,930,511</b>	<b>\$3,233,082</b>

The Developer has made significant pre-development progress. Preliminary rehabilitation drawings and specifications have been created and preliminary construction cost pricing has been completed. A detailed development budget and operating budget have been presented. In September 2023 a required Environmental Review was completed, including State Historic Preservation Office review of the proposed rehabilitation.

Table 2 reflects a detailed update on the specific developer tasks required when the Tentative Developer Status was extended.

**Table 2. Tentative Developer Status Extension Tasks Assigned 10/22 and Detailed Updates**

Task	Progress Update
Meet with Sustainable Building Ordinance ("SBO") staff, and show evidence of strategy for compliance	Completed – project determined to not be subject to SBO.
Show evidence that rehab plans are consistent with any historic preservation concerns with either Federal HUD (CDBG) or Federal Treasury (ARPA) funding	Completed – Environmental Review completed.
Prepare plans to a level of detail that can be used for a bidding process consistent with HRA's Two-Bid Policy	Completed
Finalize a detailed plan for the transition from rental to ownership, including: (a) Financial and legal transition (b) Ownership structure (c) Homeowner preparedness (d) Post-transition operating budget	Significant progress has been made on the structure of the transition to ownership. Rondo Community Land Trust has been added as a Collective member, and will ensure the long term affordability of the project regardless of ownership model. A minimum amount of reserves required to complete the ownership transition has been established. Homeowner Preparedness will be the responsibility of the Collective, but the final ownership structure will be determined by the future tenants preparing for the ownership transition. This structure is described more fully below.
Provide evidence of all funding commitments necessary to complete the project	This will be completed if current funding requests to the HRA/City are approved.
Attend a Site Plan Review meeting with Department of Safety and Inspections staff and provide an explanation of the regulatory path forward	Completed
Commit to certain development agreement terms and conditions to be determined by HRA legal counsel	Completed

Based on the completion of required tasks and continued conversations with the Developer, City Attorneys Office, and PED-Housing staff, staff is recommending a Development Agreement with the Collective that outlines the following project structure:

- The HRA will convey the Property in its entirety to Rondo Community Land Trust (“RCLT”). RCLT will simultaneously convey the building-only (improvements) to Model Cities, retaining title to the land only and entering into a ground lease with Model Cities.

- Model Cities will close on the Ramsey County and City of Saint Paul/City of Saint Paul Housing and Redevelopment Authority funding for the renovation of the building as described in this staff report.
- Model Cities will manage the rehab of the building, lease up the completed rental units to income-qualifying tenants, and manage the property. Rents paid by tenants must not exceed what is affordable to households earning 30% Area Median Income (AMI).
- No sooner than 5 years and no later than 6 years from when the property is fully leased up, units will be sold to individual condo owners with a CIC/HOA **or** to a legally established cooperative entity, subject to ground leases with RCLT, and with resale restrictions that ensure the housing is maintained as perpetually affordable housing.
  - Model Cities will be responsible for making every effort to prepare existing tenants as the initial buyers of the ownership units/shares.
  - Purchase prices will be affordable at 30% AMI
  - Purchase prices must reflect HOA fees
- If Model Cities does not sell a minimum of 4 of the units/shares to qualified homebuyers during this 12 month period. they will convey their remaining units/shares, or the entire building if no ownership was achieved, back to RCLT who will maintain the affordability of the property subject to its bylaws and resale formula.

### **Budget Action**

The requested budget action to designate up to \$949,500 in CDBG funds and \$386,279 in unobligated Tax Increment Finance funds will go through City Council for approval via Administrative Order at a later date. The loan funded with tax increments is budgeted in the Temporary TIF Spending Plan. An HRA budget amendment is needed to allocate the \$386,279 to this Project as shown in the attached Financial Analysis.

### **Future Action**

N/A

## **Financing Structure**

The Tax Increment Finance loan will be forgivable upon successful rehabilitation and full lease up of the units. The CDBG is structured as a 0% interest deferred loan that upon sale proceeds will follow the waterfall below. If there are no sale proceeds the loan will be forgiven upon conveyance of the improvements (building) to Rondo Community Land Trust.

- Ensuring operating and replacement reserves meet the minimum balance requirement (\$129,000).
  - If operating and replacement reserves exceed \$150,000, excess cash beyond that amount will be added to sale proceeds used to repay the HRA.
- Reimburse the City for the CDBG loan

## **PED Credit Committee Review**

PED Credit Committee reviewed and recommended the CDBG and Tax Increment Finance loans, both risk rated as forgivable, on October 17, 2023.

## **Compliance**

The Developer has signed a letter acknowledging receipt of the following City/HRA compliance documents (“Compliance Documents”) that will be applicable for this project and will be due from The Developer:

- Community Development Block Grant Program Regulations
- Labor Standards
- Living Wage Ordinance
- Affirmative Action/Equal Employment Opportunity
- Vendor Outreach Program
- Section 3
- Limited English Proficiency
- NSP Affordability Covenants
- Fair Housing Opportunities

## **Green/Sustainable Development**

The proposed project does not trigger Sustainable Building Ordinance requirements, as it is under the square footage minimum to do so.

## **Environmental Impact Disclosure**

N/A.

## **Historic Preservation**

This project has been subject to a HUD Section 106 review and will comply with all applicable historic guidelines and regulations.

## **Public Purpose/Comprehensive Plan Conformance**

The developer's proposed redevelopment will meet the following goals established in the City's 2040 Comprehensive Plan:

Policy H-7. Reduce overcrowding within housing units, caused by doubling up of households and inadequate space for large families, through the production of small and family-sized affordable housing options.

Policy H-21. Promote shared-equity ownership options, such as land trusts or cooperatives, to help make homeownership achievable for a greater number of households.

Policy H-40. Prioritize preservation of income-restricted and naturally-occurring affordable housing in areas with improved/improving transit and/or planned reinvestment to reduce resident displacement.

Policy H-38. Encourage acquisition, if put up for sale, of naturally-occurring affordable housing by nonprofit organizations, community development corporations, religious institutions, tenants and/or private sector actors committee to preserving and investing in affordable housing, as well as the long-term upkeep and maintenance of these properties.

Policy H-45. Support the preservation and maintenance of historic housing stock as an affordable housing options.

Policy PR-32. Support community gardens and private landscape beautification efforts where physically and financially feasible.



**Recommendation:**

Based on policymaker direction to determine the most feasible path to finance this project, staff recommends approval of the attached resolution.

**Sponsored by:** Russel Balenger

**Staff:** Tara Beard (651-266-6636)

**Attachments:**

- **Financial Analysis**
- **Map**
- **D7 Frogtown Thomas Dale Neighborhood Profile**